



# Wellington Housing Authority | Wellington Community Housing

BUDGET REPORT | FY2023

PREPARED AND PRESENTED BY:



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## Overview

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The Wellington Housing Authority (WHA) through Wellington Community Housing (WCH) provides housing for eligible low-income individuals and families. Both entities are managed by separate 5-member boards which are independently appointed by the City of Wellington.

Wellington Housing Authority went through a Section 18 disposition and converted 42 units of public housing to tenant-based voucher rental assistance in 2021. All 42 units transitioned to Wellington Community Housing, a non-profit corporation. Wellington Housing Authority will remain active despite transferring its owned real estate to Wellington Community Housing. However, due to its lack of holdings and lack of anticipated operating activities no budget has been prepared. Actuals will be presented if they occur as a part of the regular quarterly reporting.

Presented is the Wellington Community Housing budget for the 2023 financial year. The properties owned by WCH do not require management of specific debt service coverage ratios or investor tax-loss requirements. Instead, the properties are managed to perform within the confines of the HUD-administered Project Based Voucher subsidy amounts and budgeted operating expenses. All vouchers are Project Based Vouchers and attached to the apartments. WCH contracts with Housing Catalyst to manage the 28 family units and 14 senior units located in Wellington. Housing Catalyst also manages all agency and non-profit board activities and reporting along with managing agency and non-profit filings.

## Economic Conditions and Outlook

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Wellington has an estimated population of 11,722 (United States Census Bureau, 2021) and a median household income of \$89,100 (United States Census Bureau, 2021). The median family income for Larimer County is \$76,366. The rental market in Wellington remains tight with rents continuing to increase and vacancy rates at around 5-6%.

Demand for affordable housing remains strong in the Larimer County market. The rental market has tightened considerably in recent years and rents continue to increase. According to zumper.com, apartment rents in Wellington have remained stable in the past year from 2021 to 2022. The longer-term outlook for rent collection and demand for rental housing will be driven by the length and depth of the economic recovery.

## Long-Term Planning | Major Commitments | Initiatives

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Housing Catalyst supports the development and preservation of affordable housing throughout Larimer county, with funding from the City, Colorado Division of Housing, Colorado Housing and Finance Authority, equity investors, and lenders. Along with its partners, Housing Catalyst combines intentional design with sustainable development principles and sound planning to develop and maintain a vibrant, diverse affordable housing portfolio. Housing Catalyst employs many strategies to create and preserve its stock of affordable housing and extends this expertise to Wellington Community Housing. These strategies include new construction, acquisition, rehabilitation, and preservation of existing housing to create and maintain high-quality, sustainable homes.

## Organizational Structure

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Wellington Community Housing was formed in 2019 and during 2021 received all of its assets in the form of a contribution from Wellington Housing Authority. It also was awarded IRS 501(c)(3) non-profit status effective

October 17, 2019. This designation enables the entity the ability to receive tax deductible bequests, devises, transfers, and gifts. The Wellington Community Housing nonprofit entity was further designated by the IRS as a public charity and will be required to file annual 990 tax forms. Accordingly, no provision for income taxes has been reflected in the 2023 budget.

## Wellington Community Housing Budget

Exhibit 1 contains the FY2023 budget for Wellington Community Housing. The Wellington real estate portfolio is budgeted to generate \$125,592 in net operating income.

### OPERATING INCOME

Beginning in 2023 rental income will begin to be reported in the format to include gross potential rent (GPR) with adjustments for loss or gain to lease, vacancy losses, and concessions. Gross potential rent is a financial metric used to evaluate the amount of income that a property could potentially produce. Gross potential rent is calculated as the amount of rental income a property could produce assuming all units were rented at market rates, and all tenants paid their rent on time each month.

The GPR for 2023 across the portfolio is projected to be \$790,524 assuming a budgeted increase of 5%. GPR is reduced by expected losses to lease budgeted in the amount of \$23,520.

Additionally, vacancies are budgeted at 3% in 2023 reflecting a continued strong occupancy trend totaling \$23,716.

The effective gross income (EGI) for 2023 budget is expected to be \$753,974. EGI is the true amount of income that a rental property is expected to generate. It is the total income expected from all operations of the rental property after an allowance is made for the revenue that is lost as a result of lease negotiations, vacancy, or unpaid rents.

Below in Figure 1 is a historical summary of EGI for the portfolio. After the conversion of the portfolio from public housing there was a dramatic increase in the effective gross income as depicted in figure 1.

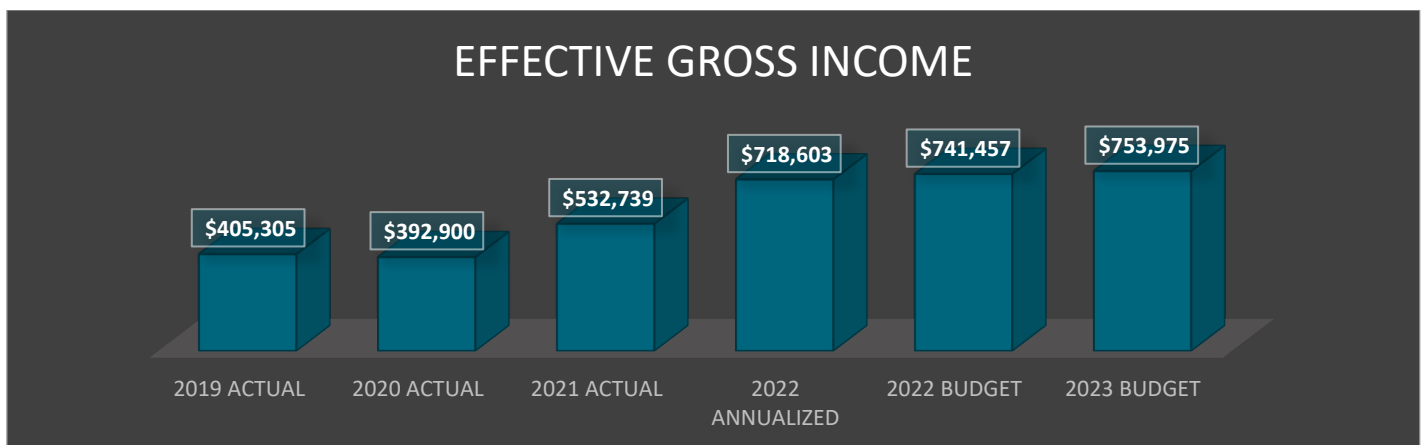


Figure 1 – 5 Year Historical Operating Income

### OPERATING EXPENSES

Combined operating expenses are budgeted to be \$628,383 in 2023. This represents an 8% increase over the 2022 proforma forecast. The operating expenses are made up of several categories as depicted in Figure 2.

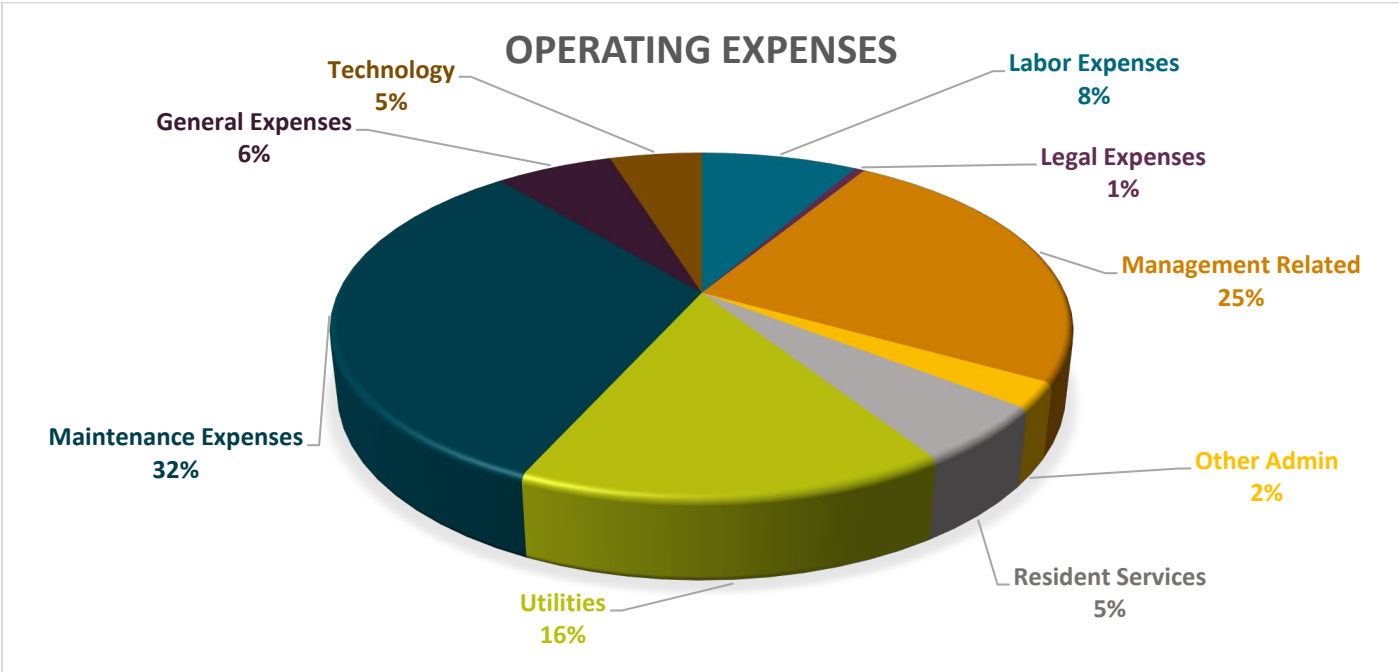


Figure 2 - Operating Expenses by Category

### Labor Expenses

Labor costs are reimbursed at cost to Housing Catalyst and do not include any markups. Labor is expected to go up by \$11,049 over 2022 budget due to increased market pressures and increases in benefits costs.

### Management Related

Housing Catalyst is proposing that the existing agreement that has been in effect for several years be updated to reflect current property management arrangements. Based upon this revised structure Housing Catalyst would charge a management fee on the gross rents as well as an accounting fee also based upon gross rents. These fees for 2023 are \$60,662 each which represents 8% of Effective Gross Income.

Additionally, starting in 2023 there will be an assessment of an administrative fee for board oversight, entity compliance, entity filings, multiple entity accounting, and general entity administration. The fee for these services in 2023 will be \$25,000. The combined fees represent a 2.3% increase over the 2022 budgeted fee arrangement.

### Maintenance Expenses

Overall maintenance expenses represent the largest expenditure budgeted. Maintenance expenses in total are budgeted to go down by 1.4% from the 2022 budget. Maintenance will begin to provide a fixed contact for preventative maintenance while non-routine maintenance will be billed on an hourly basis of \$69 per hour. Housing Catalyst has benchmarked work order bill rates with other housing authorities in Colorado and found that the range (adjusting for outliers) is \$65-\$85 per hour. Therefore, our rate of \$69 is at the low end of the range and we expect holding the bill rate in future years will not be possible.

Housing Catalyst operates and in-house maintenance department and utilizes this department to benefit its managed portfolio of properties. It does this by ensuring costs are monitored more closely and technicians are able to become more familiar with operating properties creating efficiencies.

## NET OPERATING INCOME

The 2023 net operating income (NOI) for WCH is projected to be \$125,592. This represents an \$9,368 decrease from the prior year budget proforma. The primary reason for the decrease is an increase in budgeted operating expenses which is offset by favorable increases in EGI. The NOI for 2023 as a percentage of revenues is 16.7%.

## NON-OPERATING INCOME (EXPENSES)

The 2023 non-operating income and expenses are made up of income and expense streams that are deemed not to be directly related to operating and are ancillary to operations. By separating out items that are not directly attributed to operations, it allows management to monitor the operations of the portfolio more closely.

Non-operating expenses that are typically reflected in this section are depreciation, amortization, and interest expense. For 2023 WCH has budgeted \$44,240 for depreciation expense.

## NET INCOME

The 2023 net income is budgeted to be \$81,416 which is a \$33,126 decrease from the 2022 proforma. The primary factor impacting net income is an increase in depreciation expense, which is offset by favorable increases in EGI. Net income as a percentage of revenue for 2023 is 10.8%.

## Key Definitions

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**NET INCOME:** Net income (“NI”), also called net earnings, is calculated as sales minus cost of goods sold, selling, general and administrative expenses, operating expenses, depreciation, interest, taxes, and other expenses. It is a useful number for investors to assess how much revenue exceeds the expenses of an organization. This number appears on a company's income statement and is also an indicator of a company's profitability. (Investopedia, 2021)

**NET OPERATING INCOME:** Net operating income (NOI) is a calculation used to analyze the profitability of real estate investments and organizations. NOI equals all revenue from the property, minus all reasonably necessary operating expenses.

NOI is a before-tax figure, appearing on a property's income and cash flow statement, that excludes principal and interest payments on loans, capital expenditures, depreciation, and amortization. When this metric is used in other industries, it is referred to as “earnings before interest, taxes, depreciation and amortization” (EBITDA). In our presentations we utilize the NOI term exclusively.

**NET CASH FLOW:** The net cash flow of an organization represents the sum over a period of time of the total cash received (inflow) from sales and loans less the total amount of money spent (outflow) by the company over the same period. It is an important measure of a company's ability to survive and grow (Bankrate, 2021).

# EXHIBIT 1: Operations Budget

## WELLINGTON COMMUNITY HOUSING BUDGET

Period = 01/2023 - 12/2023

Description	Total	Total/Unit
<b>OPERATING INCOME</b>		
RENTAL INCOME		
POTENTIAL RENTAL INCOME		
Gross Potential Rent	790,524	18,822
Loss/Gain to Lease	-23,520	-560
NET POTENTIAL RENT	767,004	18,262
NET POTENTIAL RENT ADJUSTMENTS		
Less: Vacancies	-23,716	-565
Less: Concessions	-204	-5
NET POTENTIAL RENT ADJUSTMENTS	-23,920	-570
NET RENTAL INCOME	743,084	17,692
Other Tenant Income	10,890	259
EFFECTIVE GROSS INCOME	753,974	17,952
TOTAL OPERATING INCOME	753,975	17,952
<b>OPERATING EXPENSES</b>		
ADMINISTRATIVE		
Labor Expenses	51,374	1,223
Legal Expense	3,250	77
Management Related Expense	153,787	3,662
Other Administrative Expenses	14,974	357
TOTAL ADMINISTRATIVE EXPENSES	223,386	5,319
RESIDENT SERVICES	33,600	800
UTILITIES	99,536	2,370
MAINTENANCE EXPENSES		
Materials	13,959	332
Contract Costs	188,947	4,499
TOTAL MAINTENANCE EXPENSES	202,906	4,831
GENERAL EXPENSES	38,625	920
TECHNOLOGY EXPENSES	30,331	722
TOTAL OPERATING EXPENSES	628,383	14,962
<b>NET OPERATING INCOME</b>	125,592	2,990
NON-OPERATING INCOME (EXPENSE)		
INVESTMENT INCOME	65	2
DEPRECIATION\AMORTIZATION EXPENSE	-44,240	-1,053
NET NON-OPERATING INCOME (EXPENSE)	-44,175	-1,052
<b>NET INCOME</b>	81,416	1,938

## EXHIBIT 2: Capital Expenditure Budget

<b>CAPTIAL IMPROVEMENT BUDGET</b>		<b>MANAGED</b>	
<b>Property Fund</b>		<b>Wellington Community Housing</b>	
<b>Property Code</b>		<b>welch</b>	
Replacement Reserve as of May 2022		-	
2022 Funding (June-Dec)		-	
2023 Funding		-	
<b>Total Funds Available</b>		-	
<b>TOTAL RESERVES AVAILABLE - PROJECTED</b>			
<i>Appliances</i>		-	
<i>Bathroom</i>		-	
<i>Contingency</i>		-	
<i>Exterior Renovation</i>		-	
<i>Flooring</i>		6,671	
<i>Garage Renovation</i>		-	
<i>HVAC</i>		-	
<i>Interior Renovation</i>		-	
<i>Kitchen</i>		-	
<i>Landscaping</i>		-	
<i>Painting</i>		-	
<i>Paving</i>		-	
<i>Roofing</i>		-	
			<b>Grand Total</b>
<b>BASE CAPITAL EXPENDITURES</b>		6,671	<b>6,671</b>
Maintenance Project Management Fee (Markup)		3,592	3,592
Asset Management Fee		1,539	1,539
<b>TOTAL PROPOSED CAPITAL EXPENDITURES</b>		<b>11,803</b>	<b>11,803</b>
Reserve Surplus (Shortage)		(11,803)	
Pending Approval of Total Requested Expenditures			
	<b>Sufficient Reserves</b>	<b>Paid from Operations</b>	